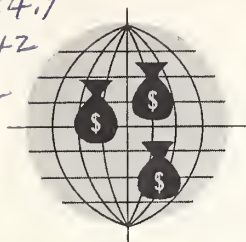


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FOREIGN GOLD & EXCHANGE RESERVES MIDYEAR SITUATION

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RESERVES, BALANCE OF PAYMENTS DEVELOPMENTS, AND ECONOMIC GROWTH

by George R. Kruer

GLOBAL SURVEY

As of June 30, 1966, international liquidity including reserve positions in the International Monetary Fund (IMF) totaled \$70.5 billion, an increase of \$2.2 billion from 1965 (table 1). Most of the increase in total reserves reflected a rise in holdings of foreign exchange (\$1.7 billion). One source of this rise in foreign exchange holdings was the continued financing of the U.S. balance of payments deficit through accumulation of dollar assets abroad.

Monetary gold reserves of countries declined by \$0.5 billion in fiscal year 1966 (table 2), partly as a result of subscription payments made under the recent increase in IMF quotas; generally, 25 percent of subscriptions are paid in gold. As a result, members' reserve positions in the Fund went up by \$1.0 billion and Fund holdings of gold rose by \$0.7 billion. Among individual countries, changes in monetary gold holdings ranged from a loss of \$0.8 billion by the United States to an increase of \$0.6 billion for France.

World trade increased faster than international reserves in the first half of 1966. Total exports in the first half of 1966 (at an annual rate) amounted to \$176.8 billion, an increase of \$17.4 billion or 11 percent from the comparable period in 1965 (table 3), while during fiscal 1966 international reserves increased by only 3 percent.

Since the increase in trade exceeded that in reserves, the ratio of reserves to imports declined. Based on reserves as of June 30, 1966, and second-quarter imports (at an annual rate), the ratio was 37 percent compared to a 1965 ratio of 39 percent.

Note: Most 1966 data in this issue are preliminary. References to "total" world gold, reserves, etc., are exclusive of the Sino-Soviet countries, Cuba, and Indonesia. Export values are f.o.b. and import values are c.i.f.

Table 1.--International gold and foreign exchange reserves of the Free World 1/

Country and area	Reserves				Gold component : June 30, 1966 <u>2/</u>	Ratio of reserves to imports <u>3/</u>
	June 30, 1964	June 30, 1965	June 30, 1966	Change : June 1965- June 1966		
	-----Million U.S. dollars-----					
ALL COUNTRIES, Total <u>4/</u>	66,685	68,285	70,490	2,205	67	37
I. INDUSTRIAL AND OTHER HIGH-INCOME COUNTRIES	56,705	57,845	58,800	955	75	39
United States	16,591	15,762	14,958	-804	95	54
Belgium	1,950	2,264	2,294	30	83	33
France	5,284	6,152	6,749	597	88	55
Germany, Federal Republic of	7,857	7,452	7,411	-41	75	41
Italy	2,977	3,952	4,445	493	67	53
Netherlands	2,009	2,339	2,332	-7	92	29
European Economic Community	20,077	22,159	23,231	1,072	80	43
Austria	1,221	1,284	1,271	-13	63	54
Denmark	515	510	587	77	30	20
Norway	368	422	492	70	11	22
Portugal	864	933	1,001	68	63	99
Sweden	813	1,041	1,043	2	35	23
Switzerland	2,955	3,009	2,997	-12	88	77
United Kingdom	3,196	2,792	3,276	484	62	20
European Free Trade Association	9,932	9,991	10,667	676	63	32
Australia	1,973	1,642	1,710	68	23	50
Canada	2,568	2,815	2,789	-26	52	27
Finland	329	300	215	-85	40	12
Greece	294	264	266	2	50	22
Iceland	35	47	54	7	9	28
Ireland	431	400	421	21	5	44
Japan	1,937	2,025	2,150	125	30	22
New Zealand	247	212	113	-99	--	10
South Africa	741	499	763	264	90	32
Spain	1,265	1,452	1,192	-260	80	32
Turkey	133	146	134	-12	87	19
Yugoslavia	65	67	77	10	26	5
II. LESS DEVELOPED COUNTRIES						
<u>Latin America</u>						
Central American Common Market <u>5/</u>	235	241	273	32	17	(b)28
Argentina	244	117	284	167	23	26
Bolivia	18	26	38	12	26	(b)30
Brazil	241	520	n.a.	n.a.	n.a.	n.a.
Chile	97	120	111	-9	39	(a)17
Colombia	122	84	87	3	28	(a)15
Dominican Republic	31	42	41	-1	7	26
Ecuador	50	38	40	2	27	(b)22
Jamaica	104	103	112	9	6	39
Mexico	506	488	519	31	43	33
Panama	16	32	35	3	--	14
Peru	170	207	146	-61	53	20
Uruguay	186	204	230	26	67	135
Venezuela	776	822	819	-3	57	(a)87

Table 1.--International gold and foreign exchange reserves of the Free World 1/--cont.

Country and area	Reserves				Gold	Ratio of
	June 30,	June 30,	June 30,	Change	component	reserves
	1964	1965	1966	June 1965- June 1966	June 30, 1966 2/	to imports 3/
	-----Million U.S. dollars-----				----Percent----	
<u>Middle East</u>						
Iran	230	301	224	-77	67	26
Iraq	268	285	267	-18	53	(b)57
Israel	576	636	643	7	11	77
Jordan	69	127	147	20	4	82
Kuwait	113	112	145	33	51	(a)33
Lebanon	219	240	258	18	76	(c)49
Saudi Arabia	543	699	773	74	12	n.a.
Syria	47	44	40	-4	47	16
United Arab Republic	245	195	192	-3	72	16
<u>Asia</u>						
Afghanistan	44	44	52	-8	67	n.a.
Burma	206	143	164	21	56	120
Ceylon	61	50	50	--	--	11
China, Republic of	322	319	332	13	18	60
India	585	519	775	256	31	26
Korea	134	118	170	52	5	25
Malaysia	918	n.a.	n.a.	n.a.	n.a.	n.a.
Pakistan	293	223	283	60	19	36
Philippines	92	141	209	68	27	24
Thailand	618	700	876	176	13	83
Vietnam	168	126	240	114	n.a.	(a)81
<u>Africa</u>						
Ethiopia	72	83	91	8	10	59
Ghana	123	151	126	-25	5	49
Libya	184	271	433	162	17	109
Morocco	62	66	99	33	33	(a)19
Nigeria	204	194	212	18	12	33
Sudan	85	74	46	-28	--	(a)20
Tunisia	44	30	31	1	13	13
East Africa 6/	188	147	n.a.	n.a.	n.a.	n.a.
Equatorial Africa 7/	76	85	74	-11	n.a.	(b)21
West Africa 8/	143	131	158	27	n.a.	n.a.

-- Indicates figure is zero or less than half of 1 percent.

n.a. = Not available.

1/ Includes gold tranche position with the International Monetary Fund.

2/ Gold tranche position and lendings to the Fund included with gold.

3/ Ratio of June 30, 1966, reserves to second-quarter 1966 imports (at annual rates) except where denoted by letters which indicate imports for the following periods: (a) first-quarter 1966, (b) fourth-quarter 1965, (c) third-quarter 1965.

4/ Includes some countries not separately shown.

5/ Includes Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

6/ Includes Kenya, Tanzania and Uganda.

7/ Includes Cameroon, Central African Republic, Chad, Congo (Brazzaville), and Gabon.

8/ Includes Dahomey, Ivory Coast, Mauritania, Niger, Senegal, Togo, and Upper Volta.

Source: International Monetary Fund, International Financial Statistics, November 1966.

In 1965, world exports of agricultural products totaled \$31.9 billion in terms of 1957-59 average prices. The U.S. share of this trade amounted to \$6.2 billion or about 20 percent.

Table 2.--Changes in monetary gold holdings

Country or institution	Changes, June 30, 1965, to June 30, 1966
	<u>Billion U.S. dollars</u>
United States	-0.8
United Kingdom	- .2
Switzerland	- .1
France	+ .6
South Africa	+ .3
All countries	- .5
IMF	+ .7
World total including institutions	+ .3

Source: Same as table 1.

There was a decline during 1965 in prices received by the less developed areas for their exports, mainly primary products, but it appears to have ended in early 1966. Prices of minerals generally showed more strength than prices of agricultural products. Specific countries and commodities showed varied trends, but overall prices of primary products remained stable. Copper and tin prices increased from the first part of 1965 to the first part of 1966 while zinc prices held steady. Coffee, tea, and rubber prices decreased slightly compared to the same period last year while sugar prices were up.

The export price index for developed areas, as well as the import price index for

developed and less developed areas, continued to edge upward.

AREA AND COUNTRY DATA

In the first half of 1966, exports of less developed countries accounted for 21.5 percent (\$38.0 billion) of world trade compared to 21.9 percent in the first half of 1965. The developed countries increased their exports in the first half of 1966 by 11.5 percent over the first half of 1965 while the less developed areas experienced an increase of only 8.7 percent. The gap was even larger for imports, with the developed areas showing a first half gain of 12.0 percent compared to only 5.5 percent for the less developed areas. The industrial and other high-income countries were responsible for \$16.1 billion of the \$17.9 billion increase in imports during the first half of 1966.

In terms of reserves, the less developed areas improved their position relative to the rest of the world. World reserves increased by \$2.2 billion in the year ended June 30; the less developed countries accounted for \$1.2 billion (57 percent) of this rise even though they held only 17 percent of world reserves as of June 30. The \$1.2 billion represents a 12 percent increase from the \$10.4 billion in reserves held by the less developed areas on June 30, 1965.

Table 3.--Exports and imports (at annual rates) of industrial and other high-income countries, first half 1966

Country and area	Exports	Imports	Balance	Change in:	
				first half 1965 to 1966	first half 1965 to 1966
WORLD TOTAL	176,750	187,150	-10,400	10.9	10.6
I. INDUSTRIAL AND OTHER HIGH-INCOME COUNTRIES	138,769	149,805	-11,036	11.5	12.0
United States	30,195	26,603	3,592	14.1	21.4
Belgium-Luxembourg	6,720	6,874	-154	7.8	12.0
France	10,990	11,975	-985	12.5	15.5
Germany, Federal Republic of	19,280	18,065	1,215	11.0	7.9
Italy	7,845	8,408	-563	13.2	18.4
Netherlands	6,534	8,049	-1,515	6.9	13.3
European Economic Community	51,369	53,371	-2,002	10.7	12.5
Austria	1,614	2,302	-688	7.3	17.4
Denmark	2,445	2,961	-516	9.2	3.2
Norway	1,536	2,275	-739	8.8	3.6
Portugal	539	874	-335	8.7	7.0
Sweden	4,173	4,616	-443	8.9	6.6
Switzerland	3,134	3,851	-717	12.9	6.2
United Kingdom	14,369	17,043	-2,674	6.6	6.5
European Free Trade Association	27,810	33,922	-6,112	8.1	6.6
Australia	3,080	3,529	-449	3.1	-4.7
Canada	9,317	9,692	-375	19.1	18.1
Finland	1,329	1,646	-317	3.0	-0.4
Greece	392	1,146	-754	23.7	5.5
Iceland	128	157	-29	12.3	18.0
Ireland	610	986	-376	10.7	-8.5
Japan	8,872	9,268	-396	12.9	11.8
New Zealand	1,275	1,084	191	8.9	12.4
South Africa	1,608	2,370	-762	8.3	-15.6
Spain	1,195	3,787	-2,592	37.2	34.2
Turkey	455	715	-260	10.7	27.2
Yugoslavia	1,126	1,533	-407	17.0	23.3
Sum of others--Australia to Yugoslavia	29,387	35,913	-6,526	13.7	10.3
II. LESS DEVELOPED COUNTRIES	38,000	37,500	-500	8.7	5.5

Source: Same as table 1.

Industrial and Other High-Income Countries

U.S. reserves declined by \$0.8 billion in the year ended June 30 while reserves of the European Economic Community (EEC) and the European Free Trade Association (EFTA) increased by \$1.1 billion and \$0.1 billion, respectively. In the remaining countries as a group, reserve movements did not change significantly.

Based on data for first half 1966, the U.S. trade surplus, though declining, was still much larger than that of any other country in this group. In the first half of 1966, the U.S. trade surplus of \$3.6 billion was \$1.0 billion less than it was for the corresponding period in 1965.

The trade accounts of EEC, EFTA, and the other high-income countries all reflected sizeable deficits. The deficit amounted to \$2.0 billion in the EEC, \$6.1 billion in EFTA, and \$6.5 billion in the remaining countries.

For the United States the balance of payments situation has improved considerably since the first quarter of the year. On a liquidity basis, the deficit was running at an annual rate of \$2.2 billion based on the first quarter's seasonally adjusted data (table 4). The position brightened in the second quarter when the seasonally adjusted deficit was only \$0.6 billion at an annual rate. Underlying this apparent improvement was a \$1.1 billion (annual rate) decline in the merchandise trade surplus from the first to the second quarter. Advance estimates put the third quarter deficit on a liquidity basis at a seasonally adjusted annual rate of \$0.9 billion.

One nonrecurring factor reducing the third-quarter deficit is the \$200 million (\$800 million at an annual rate) in loan prepayments made by France and Italy.

The outlook now is for a 1966 deficit close to last year's level of \$1.3 billion, despite the declining U.S. merchandise trade surplus and the war--induced expenditures abroad. These negative effects are being offset by high interest rates which are restraining the outflow of U.S. capital while bringing foreign capital into the United States.

On an unadjusted basis, there was a net decrease (which increases our deficit) of \$86 million in foreign assets in the United States in the first quarter, but in the second quarter there was a net increase (which reduces our deficit) of \$1,006 million (table 5). On a seasonally adjusted basis, there was a net increase of \$402 million in the first quarter and \$979 million in the second quarter. Of these latter amounts, \$185 million in the first quarter and \$310 million in the second quarter represent borrowing abroad by U.S. corporations. Funds obtained are reinvested immediately abroad. The net effect on the U.S. balance of payments is zero, but the corresponding capital inflow and outflow accounts are increased.

A slightly different picture of the U.S. deficit emerges when the alternative measure--the balance on the basis of official reserve transactions--is used. Using this measure the first quarter deficit on a seasonally adjusted

Table 4. --U.S. balance of payments, by alternative measures 1/

Measure	:	:	1965			1966	
			:	:	:	:	:
	:	:	:	:	:	:	:
	:	:	II	III	IV	I	II
:----- Million U.S. dollars -----							
Not seasonally adjusted:	:	:	:	:	:	:	:
Balance on liquidity basis	:	:	189	-1,006	-335	-68	-184
Balance on basis of official	:	:	:	:	:	:	:
reserve transactions	:	:	55	-276	-1,125	382	-368
Seasonally adjusted:	:	:	:	:	:	:	:
Quarterly:	:	:	:	:	:	:	:
Balance on liquidity basis	:	:	226	-534	-332	-556	-157
Balance on basis of offi-	:	:	:	:	:	:	:
cial reserve transactions:	:	:	239	232	-1,158	-246	-186
Quarterly at annual rates:	:	:	:	:	:	:	:
Balance on liquidity basis	:	:	904	-2,136	-1,328	-2,224	-628
Balance on basis of offi-	:	:	:	:	:	:	:
cial reserve transactions:	:	:	956	928	-4,632	-984	-744

1/ The balance on a liquidity basis is measured by the increase in U.S. official reserve assets and the decrease in liquid liabilities to all foreign accounts. The balance on the basis of official reserve transactions is measured by the increase in U.S. official reserve assets and the decrease in liquid and certain nonliquid liabilities to foreign official agencies.

Source: Department of Commerce, Survey of Current Business, June and September 1966

basis would be less than half the deficit on a liquidity basis, while the second quarter deficit would be slightly larger. Preliminary third quarter data indicate that the balance on the official reserves transactions basis has swung over to a surplus position.

The U.S. merchandise trade surplus, though traditionally large, has become seriously eroded in the past few years. At the end of the third quarter of 1966, the projected annual trade surplus was \$3.8 billion, a \$1.4 billion decline from 1965. So far this year the decline has been sparked by the rapid (21 percent) growth of imports in the first 9 months as compared to the level in the same period of 1965. In comparison, exports for the same period have increased by only 13 percent.

The September 1966 seasonally adjusted trade surplus was \$269 million, while the September 1965 surplus was \$460 million.

The declining trade surplus should be expected in view of demand pressures generated by the high rate of real growth that the United States has maintained--5.9 percent in 1965, with a 5 - 5.5 percent increase projected for 1966.

Table 5.-- U.S. international transactions

Transaction	Annually		Quarterly, not seasonally adjusted				
	:		:				
	1964	1965	1965				1966
	:	:	II	III	IV	I	II
	:	:	:	:	:	:	:
	-----Million U.S. dollars-----						
Exports of goods and services ^{1/}	36,958	38,993	10,367	9,428	10,601	10,170	10,817
Imports of goods and services	28,468	32,036	8,183	8,521	8,523	8,486	9,373
Balance on goods and services	8,490	6,957	2,184	907	2,078	1,684	1,444
Unilateral transfers, net, to foreign countries (-) ^{1/}	-2,765	-2,794	-796	-666	-669	-850	-750
Transactions in U.S. assets abroad (excluding reserve assets)							
net, increase (-)	-8,197	-5,265	-1,106	-649	-1,637	-1,142	-1,849
Private	-6,523	-3,690	-524	-424	-1,205	-842	-1,281
Government	-1,674	-1,575	-582	-225	-432	-300	-568
Transactions in foreign assets in the U.S. (liab. of U.S.), net, increase (+)	3,312	309	-388	714	315	-86	1,006
Direct investments	-5	71	-91	41	31	37	-9
U.S. corporate securities	-84	-443	-256	-235	13	158	500
All other non-liquid assets	774	566	216	-57	207	75	399
Liquid assets reported for foreign official agencies	1,073	-17	-107	253	697	-831	73
Liquid assets reported for other foreign accounts	1,554	132	-150	712	-633	475	43
Errors and omissions	-1,011	-429	38	-347	-358	-30	81
Balance to be settled by U.S. official reserve assets, deficit (-)	-171	-1,222	-68	-41	-271	-424	-68
Changes in U.S. official reserve assets, decrease (+)							
Gold	171	1,222	68	41	271	424	68
Convertible currencies	125	1,665	590	124	119	68	209
Gold tranche position in IMF	-220	-349	-56	-413	178	222	-163
	266	-94	-466	330	-26	134	22

^{1/} Exports and unilateral transfers exclude military goods and military aid grants of equal amounts which would net out anyway since they enter with opposite signs.

Source: Same as table 4.

Table 6.--U.S. merchandise trade, fiscal years ended June 30, 1964-66 1/

	Exports			Imports			Balance of trade		
	1964	1965	1966	1964	1965	1966	1964	1965	1966
Transaction									
Merchandise trade total	23,845	25,478	28,031	17,774	19,769	23,595	6,071	5,709	4,436
Agricultural total	6,067	6,097	6,681	4,096	3,986	4,454	1,972	2,111	2,227
Commercial									
agriculture	2/4,481	2/4,404	2/5,066	3/4,096	3/3,986	3/4,454	385	418	612
Public Law 480	1,562	1,667	1,573	---	---	---	---	---	---
Mutual Security	24	26	42	---	---	---	---	---	---
Nonagricultural trade total	17,778	19,381	21,350	13,678	15,783	19,141	4,099	3,598	2,209

1/ Excluding transfers under military grants.

2/ Commercial agricultural exports include, in addition to unassisted commercial transactions, shipments of some commodities with government assistance in the form of (1) extension of credit for relatively short periods, (2) sales of government-owned commodities at less than domestic market prices, and (3) export payments in cash or in kind.

3/ Commercial agricultural imports constitute total agricultural imports.

Sources: Department of Commerce, Survey of Current Business, June and September 1966, and Department of Agriculture, Foreign Agricultural Trade of the United States, November 1966.

The surplus arising from trade in farm products has become an important factor in counterbalancing the declining surplus attributable to nonagricultural products. Exports of farm products increased by \$0.6 billion in fiscal 1966, with all of the increase coming as a result of commercial sales since there was a slight decline in noncommercial sales (table 6). The commercial agricultural trade surplus increased from \$385 million in fiscal 1964 to \$418 million in fiscal 1965 and to \$612 million in fiscal 1966. At the same time, the nonagricultural trade surplus declined from \$4.1 billion to \$3.6 billion and to \$2.2 billion, respectively, for the same 3 years. For the years covered, the nonagricultural trade surplus declined by 46.1 percent (\$1,890 million), while the farm products trade surplus rose by 59.0 percent (\$227 million).

In fiscal 1965/66, the United States continued as the world's largest exporter of farm products, accounting for over one-fifth of the world trade in agricultural products. The major products exported by the United States in fiscal 1966 were wheat and flour (\$1,403 million), feed grains, excluding products, (\$1,351 million), soybeans (\$734 million), and cotton, excluding linters, (\$386 million). The fiscal 1966 exports of feed grains represent a 44 percent increase over the fiscal 1965 level, while the level of cotton exports is 34 percent below the fiscal 1965 level, or a decline of \$198 million.

European Economic Community

The rate of the Community's imports increased faster than exports in the first half of 1966, resulting in a trade deficit at an annual rate of \$2.0 billion. Expressed at annual rates, imports in the first half of 1966 were \$53.4 billion, up 12.5 percent from the same period in 1965, while exports increased 10.7 percent or to \$51.4 billion.

Table 7.--EEC: Growth in real GNP

Country	: 1965	: 1966 : estimate	: 1967 : forecast
	: -----	<u>Percent</u>	: -----
Belgium	: 3.0	3.5	3.5
France	: 3.4	5.0	5.5
Germany	: 4.5	3.5	4.0
Italy	: 3.4	5.3	5.3
Luxembourg	: 1.5	1.5	3.0
Netherlands	: 5.0	5.5	4.5
EEC	: 3.9	4.4	4.7

Even with continuing trade deficits, international reserves of the EEC countries increased by \$1.1 billion in the year ended June 30, 1966 and covered 43 percent of their annual imports.

The Community's real gross national product (GNP) is showing steady gains. The growth rate is expected to be 4.4 percent in 1966, as compared to 3.9 percent in 1965, and may reach 4.7 percent in 1967 (table 7).

Traditionally, Belgium has one of the smallest growth rates in the EEC. Government activities continue to be directed toward

combating inflationary conditions. Since foreign trade comprises an important segment of Belgium's economy, much attention and activity are devoted to maintaining its competitive position in international trade. However, even with

the present low growth rate (3.5 percent estimated for 1966), unemployment remains very low and prices continue to rise.

Luxembourg's growth rate while still low, is rising. It is now 1.5 percent but is expected to be 3 percent in 1967.

The trade balance of the Belgium-Luxembourg Economic Union shifted from a small surplus in the first half of 1965 to a small deficit in the first half of 1966. Their reserves showed only minor changes in the year ended June 30.

France had a 15.5 percent increase in imports in the first half of 1966 over the same period in 1965 while exports rose by only 12.5 percent. In the face of this increase in the trade deficit, reserves increased by \$0.6 billion in the year ended June 30 as other items in the balance of payments took up the slack. More recent data suggest that the strong balance of payments position is beginning to weaken somewhat. This might be expected as a result of France's booming economy which is growing at an annual rate of more than 5 percent, nearly the same as the U.S. rate. Both the United States and France are being beset by pressure on prices, with the cost of living increasing at an annual rate of 2.5 to 3.0 percent.

Germany experienced a considerable drop in its trade surplus in 1965 as imports rose substantially, but so far in 1966 the reverse has been true. In the first half of the year, imports increased by only 7.9 percent while exports went up by 11 percent. This did not prevent a slight drop in reserves, either when calculated from the June 1965 or the December 1965 levels because other items in the balance of payments more than offset the trade surplus. Tourism and remittances by foreign workers in the country, for example, continued to show large deficits.

During 1966 Germany has been undergoing a slowdown in economic activity and the growth in real GNP is expected to drop one percentage point from its 1965 level to 3.5 percent in 1966. The growth rate should be a little higher in 1967 due in large part to the strong export demand.

Italy has continued the recovery that started in January 1965. Export demand, which provided a stimulus for recovery in 1965, has continued to play a major role in 1966. Exports increased by 13.2 percent from the first half of 1965 to the first half of 1966. But with increased economic activity in 1966, imports jumped sharply by 18.4 percent in the first half of the year and Italy's usual large trade deficit has returned. In contrast to Germany's situation, tourism and emigrant remittances in Italy are providing a large surplus to offset the trade deficit.

Despite rapid economic growth, unemployment has remained high, because construction and investment have only recently begun to show signs of recovery. If these activities continue upward, Italy's growth rate in 1967 should exceed this year's estimated rate of 5.3 percent. The rate of increase in prices has continued to fall even at this late stage of the recovery. This fact is partially explained by the unemployment situation and the lack of pressure on wages and thus on costs.

In 1966, the Netherlands will likely achieve the highest rate of growth (5.5 percent) in the EEC. At the same time, the economy is experiencing the largest price increases; as of June 1966, the cost of living was 5.7 percent higher than in June 1965. This is having its effect on international trade. For example, the 13.3 percent increase in imports in the first half of the year was double the rate of increase in exports. Consequently, the trade deficit is rising sharply although reserves at the end of June were virtually unchanged from those of a year earlier. A slowdown in growth is expected in 1967 as a result of attempts to control inflationary tendencies in the economy.

European Free Trade Association

The EFTA trade deficit, at \$6.1 billion (annual rate) for the first half of 1966, was almost unchanged from the 1965 rate. Reserves increased by about \$700 million, most of which was accounted for by the United Kingdom's \$500 million increase.

Intra-EFTA trade increased by 9 percent between the first half of 1965 and the first half of 1966, while exports to the EEC increased by 8 percent. Exports to the United States in the first half of 1966 were 29 percent higher than in the first half of 1965. (This figure is distorted due to the U.S. dock strike that occurred early in 1965.)

Austria was the only EFTA country in which the increase in imports in the first half of 1966, as compared to a year earlier, exceeded the increase in exports. Exports were up by 7 percent while imports increased by 17 percent. Reserves declined slightly in the year ended June 30, 1966.

Denmark and Norway experienced similar changes in their trade during the first half of 1966. Exports of both countries increased 9 percent from the first half of 1965 to the first half of 1966. Imports in each case increased only about 3 percent. Similarly, the increase in their reserves for the year ended June 30 was about \$70 million.

Portugal's reserves increased by \$68 million in the same period. As of June 30, reserves were sufficient to cover a full year's imports.

Sweden's trade deficit of \$0.4 billion (annual rate) in the first half of 1966 was slightly less than in the first half of 1965. The reduction in the trade deficit was originally expected to continue throughout 1966, but the deflationary policies adopted in the United Kingdom (which takes about 50 percent of Sweden's exports) may have serious adverse effects on Sweden's exports during the latter half of 1966.

Switzerland's reserves dropped slightly during the year ended June 30, even though exports in January - June 1966 increased by 12.9 percent over the comparable period in 1965 and imports grew by only 6.2 percent.

For the United Kingdom the big question is what is going to happen in the latter half of 1966. Objectives of the selective employment tax and the wage and price standstill are to effect an increase in exports and a decrease in

imports so as to restore confidence in the pound. Actually, the United Kingdom's trade deficit (at a \$2.7 billion annual rate) in the first half of 1966 was virtually unchanged from that in the same period in 1965. Her reserves had increased by \$0.5 billion in the year ended June 30 possibly as a result of non-market forces. The government's economic slowdown may be having the desired effects since the trade deficit in September 1966--\$137 million--was the lowest of the year. A cloud on the horizon is the import surcharge that is to be removed on November 30. Removal will probably result in an increase in imports.

The National Institute for Economic and Social Research has projected a \$700 to \$840 million surplus on the current and long-term capital account by the end of 1967. This is a somewhat optimistic figure, however. The growth in real output, originally expected to be about 2.5 percent in 1966, will probably be less as a result of the deflationary policies undertaken during the latter half of the year.

Other Industrial and High-Income Countries

For this diverse group of countries, reserve holdings in the year ended June 30 changed little overall, but individual countries experienced large shifts. The major changes were Spain's \$260 million loss of reserves and South Africa's \$264 million increase.

South Africa's imports declined by 15.6 percent from the first half of 1965 to the first half of 1966 while exports expanded by 8.3 percent. This caused the trade deficit to decline by 42 percent (\$562 million) and permitted the increase in reserves.

Spain's rapid economic growth has caused import demand to expand significantly. Imports in the first half of the year were running 34.2 percent ahead of the level for the first half of 1965 while the increase in exports over the same period was 37.2 percent. Real GNP in 1965 increased by 7.8 percent; about the same is expected for 1966.

Japan's rapid pace of economic growth is also creating an increasing import demand there, especially for raw materials utilized in industrial processing. Imports in the first half of 1966 were up by 11.8 percent. The increase is expected to be even greater in the latter half of the year and in early 1967. The growth in real GNP for the fiscal year ending March 31, 1967, will likely be close to 10 percent and in the next year it should exceed that.

Inflationary pressures are accompanying the rapid growth and in June the Tokyo Consumer Price Index (CPI) was 6.4 percent above the 1965 average. Wholesale prices are also showing large increases. Although the trade deficit in the first half of 1966 was about \$400 million (annual rate), Japan's reserves were virtually unchanged in the first 6 months of 1966 and for the year ended June 30 rose by \$125 million.

Less Developed Countries

The \$1.2 billion increase in the reserves of this group for the year ended June 30 was largely accounted for by Argentina (\$167 million), India (\$256 million), Thailand (\$176 million), and Libya (\$162 million). The largest decline was the \$77 million loss experienced by Iran. However, data for countries in this group are fragmentary and some of the nonreporting countries may have undergone larger changes.

Libya, still benefiting from her oil boom, experienced a 20.5 percent increase in exports in the first half of 1966 compared to the same period in 1965. Although imports rose by 36.4 percent during the same period, they still amounted to only two-fifths of exports.

Israel achieved a 13.7 percent increase in exports in the first half of the year compared to the first half of 1965, while imports were up only 1.7 percent for the same period. Internally, deflationary measures are being taken to curb the high rate of increase in wages and prices. Since export earnings cover only about 60 percent of the cost of imports, Israeli officials are striving to reduce this gap by making their exports more competitive. They have also initiated moves to associate Israel with the EEC so as to gain a more favorable entrance to markets in the Community. Reserves, virtually unchanged during the year ended June 30, covered 77 percent of annual imports.

Mexico is undergoing a rather rapid growth rate (6-7 percent in real terms is the outlook for 1966), along with price stability. The index of wholesale prices at the end of June was lower than in June 1965. The cost of living is increasing, but, overall, prices are not viewed as a problem.

Mexico still has a trade deficit, even though exports rose by 15.4 percent in the first half of 1966 as compared to the first half of 1965, while imports were increasing by only 4.2 percent.

INTERNATIONAL MONETARY FUND: U.S. DRAWINGS, 1964-SEPTEMBER 1966

by McGehee H. Spears

Current efforts to bring the U.S. balance of payments into an equilibrium position encompass a broad range of measures and policies. Corrective measures include checking the outflow of capital, minimizing the payments impact of Governmental operations and encouraging the expansion of export trade, particularly the commercial sale of agricultural products abroad.

The U.S. payments position is also being improved by cooperative arrangements among trading nations. Trade and financial cooperation among countries enhance international financial stability and facilitate continued economic progress. The Organization for Economic Cooperation and Development enables the United States and other member countries to appraise and to consult each other on financial and trade policies affecting international payments flows. The International Monetary Fund, established in 1946, has an even wider membership and a direct role in providing financial assistance to member countries. The United States was one of the initial members.

The purposes of the Fund are to promote exchange stability, maintain orderly exchange arrangements, and avoid competitive exchange depreciations among member countries. In addition, the Fund has a central pool of financial resources which are available to members under established rules which make it possible for members to comply with the Fund's goal and at the same time lessen balance of payments difficulties. 1/

In addition to its part in stabilizing the international monetary system, the Fund's financial assistance activities have enabled an orderly expansion of world agricultural trade. The value of world trade in agricultural products now totals over \$30.0 billion compared to around \$20.0 billion in 1953 (1957-59 prices). The U.S. share in this growth increased from 13 percent in 1953 to about 20 percent or over \$6.0 billion in 1965. The growth of agricultural trade in the United States as well as in other countries owes much to the continued cooperative efforts of nations within the Fund.

1/ This pool of financial resources originates from the collective payments of member countries. Quotas for each member country are equivalent to the subscription paid by each member. The U.S. quota, like that of other member countries, is the basis for all transactions with the Fund. The quota determines the size of the member's subscription payments -- up to 25 percent of the quota is payable in gold and the remainder in the member's currency. It also determines the voting strength of members and is the basis for calculating the amounts of financial assistance which the member may obtain from the Fund.

THE FUND'S ROLE IN ASSISTING MEMBER COUNTRIES

During its first 12 years (1947-58), the Fund's financial assistance was extended primarily in U.S. dollars to countries experiencing balance of payments difficulties. Through 1958, Fund assistance to member countries totaled the equivalent of \$3.2 billion; over 90 percent of these drawings were in U.S. dollars (table 1). ^{2/} In these early years, the U.S. dollar was the major currency used by the Fund in extending large amounts of credit to members and over three-fourths of all repayments by members were made in U.S. dollars.

In subsequent years, this situation was reversed as other currencies were used more frequently in Fund drawings. Repayments to the Fund in U.S.

Table 1.--International Monetary Fund: Drawings and repayments,
1947 - September 1966

Period or year	Drawings			Repayments		
	Total	U.S. dollars	Percentage of total	Total	U.S. dollars	Percentage of total
	<u>Million dollars</u>		<u>Percent</u>	<u>Million dollars</u>		<u>Percent</u>
1947-58.....	3,223.9	2,915.8	90.4	1,439.6	1,097.7	76.3
1959-63.....	3,855.1	1,412.2	36.6	3,701.5	2,469.6	66.7
1964.....	1,949.8	281.9	14.5	513.4	4.8	0.9
1965.....	2,433.5	282.2	11.6	379.6	---	---
1966:						
Jan.-Sept.	1,296.0	129.5	10.0	418.1	0.5	0.1

Source: International Monetary Fund, International Financial Statistics.

^{2/} Drawings take the form of purchases by a member country of the currency or currencies of other members held by the Fund using the equivalent amount of its own currency. Drawings which do not increase the Fund's holdings of a member's currency above its quota are said to be within the gold tranche. Drawings in the first credit tranche increase the Fund's currency holdings to an amount greater than the member's quota but not greater than 125 percent of the quota. In the second credit tranche, Fund currency holdings of the member may increase up to 150 percent of the quota, and so on. Requests for drawings falling within the gold tranche are approved virtually automatically. Repayments in 3 to 5 years or less take the form of repurchases where a member reacquires its own currency in exchange for gold or convertible currencies acceptable to the Fund.

dollars exceeded new dollar drawings during the period 1959 through 1963 even as the Fund's financial assistance rose to a peak equivalent to \$2.5 billion in 1961. Total drawings from the Fund during this period were the equivalent of \$3.8 billion; however, the share in U.S. dollars declined about one-half from that in the earlier period. Repayments were the equivalent of \$3.7 billion and the share in U.S. dollars was \$2.5 billion.

As dollar repayments exceeded new dollar drawings, Fund holdings of U.S. dollars reached 74 percent of the U.S. quota by the end of 1962 and 75 percent by the end of 1963 (table 2). Fund holdings of U.S. dollars, as a

Table 2.--International Monetary Fund: U.S. quota and gold tranche position, 1947 through September 1966

Year	Quota	Subscription		Holdings of dollars by the Fund		Gold tranche position	
		Gold	Dollars	Total	Percentage of quota	Total	Change from prior period
		-----Million dollars-----			Percent	--Million dollars--	
1947	2,750.0	687.5	2,062.5	1,597.1	58.1	1,152.9	+1,152.9
1948	"	"	"	1,391.4	50.6	1,358.6	+205.7
1949	"	"	"	1,288.6	46.9	1,461.4	+102.8
1950	"	"	"	1,304.5	47.4	1,445.5	-15.9
1951	"	"	"	1,324.4	48.2	1,425.6	-19.9
1952	"	"	"	1,288.2	46.8	1,461.8	+36.2
1953	"	"	"	1,383.0	50.3	1,367.0	-94.8
1954	"	"	"	1,564.8	56.9	1,185.2	-181.8
1955	"	"	"	1,705.8	62.0	1,044.2	-141.0
1956	"	"	"	1,142.4	41.5	1,607.6	+563.4
1957	"	"	"	775.0	28.2	1,975.0	+367.4
1958	"	"	"	792.3	28.8	1,957.7	-17.3
1959	4,125.0	1,031.2	3,093.8	2,127.5	51.6	1,997.5	+39.8
1960	"	"	"	2,570.2	62.3	1,554.8	-442.7
1961	"	"	"	2,435.1	59.0	1,689.9	+135.1
1962	"	"	"	3,060.6	74.2	1,064.4	-625.5
1963	"	"	"	3,090.0	74.9	1,035.0	-29.4
1964	"	"	"	3,355.6	81.3	769.4	-265.6
1965	"	"	"	3,521.1	85.4	603.9	-165.5
1966:							
January	"	"	"	3,609.5	87.5	515.5	-88.5
February	5,160.0	1,290.0	3,870.0	4,386.2	85.0	773.8	+258.3
March	"	"	"	4,431.2	85.9	728.8	-45.0
April	"	"	"	4,434.1	85.9	725.9	-2.9
May	"	"	"	4,465.5	86.5	694.5	-31.4
June	"	"	"	4,453.2	86.3	706.8	+12.3
July	"	"	"	4,517.8	87.6	642.2	-64.6
August	"	"	"	4,763.4	92.3	396.6	-245.6
September	"	"	"	4,788.0	92.8	372.0	-24.6

Source: International Monetary Fund, International Financial Statistics.

percentage of quota, reached 81 percent by the end of 1964; 85 percent by the end of 1965; and, 93 percent by the end of September 1966 after taking into account an increase in the U.S. quota, U.S. drawings, and dollar transactions between the Fund and other member countries.

U.S. DRAWINGS FROM THE FUND

When holdings of U.S. dollars reached 75 percent of the U.S. quota, under the Fund rules countries had to make repayments in other eligible convertible currencies or with gold rather than in U.S. dollars. The United States in agreement with the Fund proceeded to draw selected currencies, most of which were sold for dollars to countries making repayments to the Fund in the immediate future. Although U.S. dollars could not be accepted, many of the repaying countries held a large share of their exchange reserves in dollars.

The United States first used the financing facilities of the Fund in February 1964, when it elected to draw, under an existing standby arrangement, convertible currencies equivalent to \$125.0 million (table 3). ^{3/} Through September 1966, the United States drew 8 different convertible currencies with a combined value equivalent to \$1.6 billion. Almost 80 percent of these drawings were in Canadian dollars, German marks, and Italian lire. Other currencies drawn included Austrian schillings, Belgian francs, French francs, Netherland guilders, and Swedish kronor. All U.S. drawings except those currencies equivalent to \$300.0 million obtained in July 1965, and the Italian lire drawing of \$250.0 million in August 1966, were made for the purpose of obtaining currencies which were subsequently sold for dollars at par to other countries planning to repay the Fund.

Dollars held by the Fund help finance the U.S. balance of payments position. Dollars held by the Fund, and dollars absorbed by the U.S. monetary authorities with the currencies drawn have the effect of reducing potential claims on the U.S. gold stock. Without this 3-way transaction, countries wishing to discharge their Fund repayment obligations would likely have had to convert part of their dollar holdings into gold in order to make payments to the Fund. Also, if eligible currencies were not made available by the United States to these countries, the currencies needed for repayment would probably have been purchased in the exchange markets, thereby potentially adding to already large dollar holdings of various European monetary authorities. On request, the United States stands ready to convert dollars held by these authorities into gold.

Currencies drawn in July 1965 were used to liquidate several previous Federal Reserve swap drawings or to purchase dollar holdings of several

^{3/} A standby arrangement between the Fund and the member country assures the latter that it may draw on the Fund's resources up to a predetermined amount during a specified period. The United States and Fund entered into such an agreement in July 1963 with a maximum authorization to draw up to \$500.0 million. The standby was effective 1 year and on expiration was renewed another year. It expired in July 1965.

Table 3.--International Monetary Fund: U.S. drawings by currencies, in U.S. dollar equivalents, February 1964 to September 1966

Date	Austrian : schillings	Belgian : francs	Canadian : dollars	French : francs	German : marks	Italian : lire	Netherlands : guilders	Swedish : kronor	Total
				Million dollars					
1964:									
Feb.	---	---	---	59.75	59.75	5.50	---	---	125.00
June	---	---	---	55.00	70.00	---	---	---	125.00
Sept.	7.50	7.50	---	---	70.00	---	57.50	7.50	150.00
Dec.	---	---	---	---	125.00	---	---	---	125.00
Total:	7.50	7.50	---	114.75	324.75	5.50	57.50	7.50	525.00
1965:									
Mar.	---	---	25.00	---	25.00	25.00	---	---	75.00
July	---	40.00	---	40.00	---	180.00	25.00	15.00	300.00
Sept.	---	---	60.00	---	---	---	---	---	60.00
Total:	---	40.00	85.00	40.00	25.00	205.00	25.00	15.00	435.00
1966:									
Jan.	---	---	100.00	---	---	---	---	---	100.00
Mar.	---	---	60.00	---	---	---	---	---	60.00
Apr.	---	---	30.00	---	---	---	---	---	30.00
May	---	---	30.00	---	---	---	---	---	30.00
July	---	---	70.50	---	---	---	---	---	70.50
Aug.	---	---	31.75	---	---	250.00	---	---	281.75
Sept.	---	---	35.00	---	---	---	---	---	35.00
Total:	---	---	357.75	---	---	250.00	---	---	607.25
Grand total	7.50	47.50	442.25	154.75	349.75	460.50	82.50	22.50	1,567.25

Source: International Monetary Fund, International Financial News Survey and International Financial Statistics.

European central banks. 4/ The lire drawn in August 1966 were used to liquidate swap commitments.

U.S. GOLD TRANCHE POSITION

From 1947 through 1963, the U.S. gold tranche position exceeded the gold component of the quota each year. As drawings of dollars by other member countries exceeded dollar repayments during 1947-58, the U.S. gold tranche position rose by \$804.8 million to a total of almost \$2.0 billion, or \$1.3 billion above the gold component of the quota. From 1958 through 1963, the gold tranche position decreased by \$922.7 million, and the position above the gold component of the quota dropped to \$3.8 million.

With the earlier U.S. drawings and Fund holdings of dollars at 75 percent of the U.S. quota, the gold tranche position in the Fund was reduced but not seriously. In 1964 and 1965 after taking into account U.S. drawings and dollar transactions between the Fund and other members -- the gold tranche position remained at a level of \$769.4 million and \$603.9 million, respectively. Thus, the U.S. gold tranche position was \$261.8 million below the gold component of the quota in 1964 and \$427.3 million below it in 1965.

By the end of September 1966 the U.S. gold tranche position had dropped to \$372.0 million as Fund dollar holdings reached a record level of \$4.8 billion, or 93 percent of the U.S. quota. Although the cumulative total of U.S. drawings presently stands at \$1.6 billion, the U.S. repayment obligation continues to be reduced by the drawings of dollars by other Fund members. At the end of August 1966, the net U.S. repayment obligation to the Fund totaled \$893.0 million. 5/

4/ A network of negotiated standby arrangements has been in operation since 1962 between the Federal Reserve System and central banks abroad and the Bank for International Settlements. The purpose of this network is to defend the value of the currencies of the participating countries in exchange markets. If circumstances warrant, currencies are exchanged and then used to intervene in the market with the understanding that at the end of a period the transaction is reversed. Periodic reports on these arrangements are made by Charles A. Coombs, "Treasury and Federal Reserve Foreign Exchange Operations," Federal Reserve Bulletin (various issues).

5/ Coombs, C.A., op. cit., Ninth report. Federal Reserve Bulletin, Sept. 1966. p. 1325.

STATISTICAL APPENDIX

The appendix tables below present statistical data pertaining to (1) the amount of U.S. Government foreign assistance extended in total and under Public Law 480; and (2) the amount of U.S. agricultural commodities programmed under long-term dollar credit sales (Title IV, P.L. 480), classified by applicable interest rates and maturities.

Appendix table 1.--Major U.S. Government military and economic foreign assistance, in U.S. dollars and equivalents, total and under Public Law 480, 1954-65.

Transactions	1954-58 average	1959-63 average	1964	1965
	<u>-----Million dollars-----</u>			
Net new grants.....	4,434	3,541	3,270	3,463
Under Public Law 480.....	277	532	884	671
In foreign currencies.....	35	202	532	333
Farm products <u>1/</u>	241	331	352	338
Other program grants.....	4,157	3,008	2,386	2,792
Net new credits <u>2/</u>	177	566	1,549	1,597
Under Public Law 480.....	97	363	732	692
In foreign currencies.....	97	344	634	556
Long-term dollar credit sales	---	19	98	135
Other program credits.....	80	203	816	904
Other assistance, net.....	396	279	-28	-23
Under Public Law 480.....	336	259	-6	-5
Foreign currencies acquired <u>3/</u>	522	1,035	1,397	1,083
Foreign currencies disbursed..	186	710	1,403	1,088
For grants and credits.....	131	564	1,161	895
Other uses.....	55	147	242	193
Other programs.....	60	20	-21	-17
Net foreign assistance.....	5,007	4,386	4,792	5,038
Under Public Law 480.....	710	1,155	1,610	1,358
Other programs.....	4,297	3,231	3,181	3,679

1/ Including transportation.

2/ New credits minus principal repayments received.

3/ From sales of agricultural commodities and other secondary operations.

Note: Details do not add to totals due to rounding.

Source: U.S. Department of Commerce, Office of Business Economics.

Appendix table 2.--U.S. Government long-term dollar credit sales agreements and amendments by maturity period and interest rate, August 1961 to October 4, 1966 ^{1/}

Annual interest rate	1 - 5 years		6 - 10 years		11 - 15 years		16 - 20 years		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Percent		<u>dol.</u>		<u>dol.</u>		<u>dol.</u>		<u>dol.</u>		<u>dol.</u>
			<u>Government-to-government</u>							
3/4.....			3	1,947			15	120,679	18	122,626
2.....							2	2,095	2	2,095
2-1/2.....					1	798	27	191,950	28	192,748
3.....	2	13,940			1	1,400			3	15,340
3-1/2.....					5	145,416	13	177,634	18	323,050
3-5/8.....	1	2,000							1	2,000
3-7/8.....	1	10,875	1	13,200					2	24,075
4.....	1	11,414			5	95,179	2	2,556	8	109,149
4-1/4.....							1	2,202	1	2,202
4-1/8.....	2	21,725							2	21,725
4-7/8.....	2	8,998							2	8,998
Total.....	9	68,952	4	15,147	12	242,793	60	497,116	85	824,008
			<u>Government-to-private</u>							
4.....			1	500					1	500
4-1/8.....			1	35,000	2	4,724			3	39,724
4-1/4.....							1	2,994	1	2,994
4-5/8.....			1	1,975					1	1,975
5-1/8.....			1	250					1	250
Total.....			4	37,725	2	4,724	1	2,994	7	45,443
Grand total:	9	68,952	8	52,872	14	247,517	61	500,110	92	869,451

^{1/} Classified by interest rates applicable during the period of principal repayment. Amounts reflect the export market value of agricultural commodities programmed under Title IV, Public Law 480, including applicable ocean transportation to be financed.

Source: U.S. Department of Agriculture, Foreign Agricultural Service.

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